

# Candriam Equities L Biotechnology

## Market Overview

In January the Biotech sector outperformed broader equity markets while slightly underperforming the more defensive general Healthcare. There was certainly some volatility in equities over the month and that was much the same for biotechnology as investors digested the probability and related impact from Trump healthcare appointees and new US administration policies and threat of policies impacted macro, interest rate outlook and the possibility of change to US drug pricing policy.

However, it was interesting to see the outperformance of the Healthcare and Biotech sectors in the face of outflows from AI related technology equities during the month. The implications of potentially lower AI spend, the longer term interest rate outlook and the potential for a sector rotation when Healthcare and Biotech have underperformed for a number of years now and where valuations and fundamentals are compelling is an interesting set up here.

## Portfolio Highlights

In January, the fund closed up on an absolute basis though it trailed slightly behind the Nasdaq Biotech NR<sup>®</sup> Index. M&A activity, robust clinical updates, and solid quarterly earnings drove the month's performance on a fundamental basis, supported by the macro market as described above. Notably, a portfolio company Intra-Cellular Therapies was acquired by Johnson & Johnson in a deal that strengthens J&J's neuroscience. Vertex Pharmaceuticals enjoyed a significant boost after the FDA approved its non-opioid pain medication, Journavx (suzetrigine), On the revenue front, Alnylam posted impressive preliminary 2024 net product revenues with a 33% year-over-year growth and issued an optimistic 2025 guidance. From the notable clinical updates Novo Nordisk captured attention with its investigational drug amycretin, which achieved up to 22% weight loss in a mid-stage trial, positioning it as a strong competitor against existing and pipeline obesity treatments.

On the negative contributors, Regeneron's stock was pressured by ongoing challenges with its Eylea franchise as biosimilar competition intensified and the transition to Eylea HD was slower than expected, with fourth-quarter pre-announced sales falling short of expectations. Additionally, Neumora's performance suffered after its first of three trials in Major Depressive Disorder (MDD) failed to meet the primary endpoint, possibly due to a higher than expected placebo response, while Dyne Therapeutics faced investor concerns over the regulatory pathway and competitive landscape despite positive Phase 2 data in rare neuromuscular disease Myotonic Dystrophy Type 1 (DM1).

## Fund Outlook

Biotechnology continues to be a sector focused on discovery and development of life saving, life changing therapies. There is much to celebrate in terms of R&D innovation, focus and success. It is our view the business models of these companies are solid and can withstand a focus on value based pricing. Furthermore, largely due to macro concerns the sector is largely not reflecting this progress in valuations. There is of course nervousness and uncertainty regarding the ever important US biopharmaceutical market with the new US Administration although we think much of the risk is likely captured in share prices here. Further, the drop of Nvidia earlier in the month highlighted the fragility of some of the valuations in the Technology sector and offered an intriguing look into the performance of the Healthcare and Biotech sectors in this context. We struggle to articulate an obvious catalyst for a sector rerating but like the valuation and fundamental progress.

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